

VZCZCXRO2289  
PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHSB #0886/01 3111228  
ZNR UUUUU ZZH  
P 071228Z NOV 09  
FM AMEMBASSY HARARE  
TO RUEHC/SECSTATE WASHDC PRIORITY 5118  
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUEHAR/AMEMBASSY ACCRA 3160  
RUEHDS/AMEMBASSY ADDIS ABABA 3272  
RUEHBY/AMEMBASSY CANBERRA 2533  
RUEHDK/AMEMBASSY DAKAR 2902  
RUEHKM/AMEMBASSY KAMPALA 3320  
RUEHNR/AMEMBASSY NAIROBI 5768  
RUEHRL/AMEMBASSY BERLIN 1699  
RUEHGV/USMISSION GENEVA 2452  
RUEAIIA/CIA WASHDC  
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK  
RHMFISS/EUCOM POLAD VAIHINGEN GE  
RHEFDIA/DIA WASHDC  
RHEHAAA/NSC WASHDC

UNCLAS SECTION 01 OF 02 HARARE 000886

SENSITIVE  
SIPDIS

AF/S FOR B.WALCH  
DRL FOR N.WILETT  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS  
STATE PASS TO USAID FOR J.HARMON AND L.DOBBS  
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR M.GAVIN

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [ZI](#)  
SUBJECT: ZIMBABWE BANKS WHISTLE PAST THE GRAVEYARD

Ref: Harare 863

¶1. (SBU) SUMMARY: Bankers in Harare seem not to have noticed that the Reserve Bank of Zimbabwe (RBZ) has robbed them of US\$39 million. Local papers reported details of the RBZ's latest malfeasance just days after IMF officials gave details to the GOZ and diplomats (reftel). The banks have ample reserves beyond what the RBZ has diverted, and steady growth in deposits helps the banking system remain stable. Even in the best case, this incident will increase tension between Finance Minister Tendai Biti and RBZ Governor Gideon Gono. And when the full story finally registers with the public, Zimbabwe will look like an even riskier place to do business. END SUMMARY.

¶2. (SBU) IMF officials recently told diplomats in Harare that the RBZ had undermined the stability of the banking system by spending banks' reserve deposits. Within two days of the IMF briefing, local papers had reported this tale of the ultimate insider bank heists, along with direct quotes from the IMF's report to the GOZ. But the press reports did not create queues of nervous bank depositors rushing to withdraw money, and none of the banks have complained in public. Even our own discreet enquiries revealed no alarm among the banks.

¶3. (SBU) One reason Harare bankers remain calm is that past experience of RBZ recklessness has taught them to take precautions. Beyond the minimum reserves required by RBZ rules (10 percent of deposits), the banks maintain excess reserves equivalent to at least 5 percent of deposits. And the banks remain cautious about lending. The volume of bank credit is still less than half of deposits. In 1999, by contrast, banks' loans to the private sector exceeded 90 percent of deposits.

¶4. (SBU) Like other victims of Ponzi schemes, the banks also have empirical reasons to hope for the best. There has been rapid growth in deposits since February, so the RBZ has seen a steady increase in banks' required reserves. As a consequence, when a given bank experiences a decline in deposits and requires a refund of required reserves, the RBZ has always been able to fund that obligation

through the increase in other banks' reserve deposits. This is a risky game for a central bank to play, but the RBZ can get away with it as long as the level of deposits is rising. So far, according to our banking contacts, the RBZ has never failed to refund reserves to a bank when necessary.

15. (SBU) It is also possible that the banks may not yet be aware of the scale of the RBZ's latest malfeasance. While at least one independent newspaper has the full story as set out in the IMF's report, the reporting so far has not been entirely coherent. The main point may have escaped the notice of even financially astute readers. One bank director told us it was bad for the RBZ to spend bank's reserves, but the practice could be tolerated as long as most of the reserves were left in place and the RBZ did not use the Qof the reserves were left in place and the RBZ did not use the banks' money to fund its operations. In fact, as of the end of August the RBZ had diverted over 80 percent of banks' required reserve balances to fund salaries, pay off debts, and even subsidize the national airline.

16. (SBU) COMMENT: This incident is sure to escalate the friction between Biti and Gono. Biti and his party, the MDC, have been trying to remove Gono from his position since the formation of the transitional government in February. They will cite the reserves fiasco as further evidence of Gono's incompetence. When the story broke, Gono publicly stated that the Ministry of Finance was to blame because it had not given the RBZ sufficient funding. Whether they are still in the dark or just pretending to be, the banks will inevitably find it necessary to protect their interests. Once the penny drops, so to speak, they could confront the RBZ and insist on

HARARE 00000886 002 OF 002

having the missing funds restored (as the IMF has already done). Additionally, they can scale back lending to improve their reserve positions. In any event, the full story will eventually emerge and do further damage to Zimbabwe's battered business climate. END COMMENT.

RAY